

FISCAL YEAR 2008 LENDER RISK RATING SYSTEM ENHANCEMENT

In order to ensure that SBA's Lender Risk Rating system continues to rate 7(a) lenders and Certified Development Companies with an optimal level of predictive power, SBA and its contracting team perform an annual validation to ensure the models continue to predict purchases over the succeeding twelve months and rank order risk. This process enables SBA to expand and enhance its analysis of the 7(a) and 504 guaranteed loan portfolios and the lenders it oversees. As a result of the 2007 validation, the Lender Risk Rating System was enhanced in two ways:

First, the validation process indicated that the difference in performance for various 7(a) and 504 delivery methods (PLP, Express, etc.) has become relevant enough to warrant assessment of the Projected Purchase Rate on a delivery method basis (i.e., PLP, SBAExpress). This will enable SBA to perform additional analysis at the loan and lender level, with even greater precision.

Second, there was a refinement of the scaling of the 7(a) and 504 Lender Risk Ratings to set the risk ratings around natural breaks corresponding to the benchmark validation purchase rate values in the scoring model results, instead of segmentation based upon pre-defined rating populations.